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UNCLAS SECTION 01 OF 03 VIENTIANE 000351

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SUBJECT: PRESSING THE AES HYDROPOWER BID WITH SENIOR LAO
OFFICIAL

REF: A. VIENTIANE 0312

- [1](#)B. VIENTIANE 0167
- [1](#)C. VIENTIANE 0300
- [1](#)D. VIENTIANE 0341
- [1](#)E. VIENTIANE 0259

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[1](#)1. (SBU) Summary: The Ambassador met with Committee for Planning and Investment (CPI) President Soulivong Daravong April 30 to continue her personal support for the bid by AES on the first run-of-the-river hydropower project on the Mekong River in Laos. Soulivong was clear that CPI had not made its own recommendation but had only reported to the Prime Minister's Office (PMO) on the three bidders, listing each by strong points. He added that the weakness of the AES proposal, however, was the lack of a marketing program element. The Ambassador took advantage of the meeting to raise two other cases involving smaller U.S. companies, Natural Products Inc. and Friend of the Upland Farmer. End summary.

AES

[1](#)2. (SBU) The Embassy requested an appointment April 23 with the PMO for the Ambassador to personally deliver the letter from Secretary of Commerce Gutierrez to Lao Prime Minister Bouasone Bouphavanh supporting the AES bid. The PMO asked the Embassy instead to deliver the letter to CPI President Soulivong -- a minister-level senior official and former Minister of Commerce. Due to the delay, the Embassy delivered copies of Secretary Gutierrez's letter to both the PMO and CPI in advance of the Ambassador's April 30 meeting with CPI President Soulivong.

[1](#)3. (SBU) Soulivong was well aware of the competition involving AES and had read Secretary Gutierrez's letter by the time he met with the Ambassador. He agreed with the Ambassador that a successful bid by a major American investor such as AES would send a very positive message about the climate for foreign investors in Laos. The Ambassador also

made very strong points about AES' experience in the hydroelectric and power generating fields and stressed the capacity of AES to live up to the increasingly important environmental standards set by the debate over constructing the Nam Theun 2 dam project. She pointed out that these standards will be raised by NGOs and environmentalists because of both the sheer size of this project (\$1.5 billion) and the fact it will be the first dam project in Laos on the Mekong River itself rather than on one of its tributaries.

14. (SBU) The Ambassador also cited the strength of AES, because of its size and excellent track record, in accessing the capital markets for funding for this project including from the Asian Development Bank, World Bank, and private lenders. Finally, she pointed out that relying only on one company or one country as an investor weakens the position of Laos by limiting its ability to generate real competition over the terms and conditions of bids. (Note: the other two companies competing with AES for this project are both from Thailand.)

15. (SBU) According to Soulivong, CPI had finished its role in the process of vetting the bidders on this project. CPI had written a report on the top three bidders which included a matrix of the strong points of each bidder. He specified that CPI did not include a recommendation. It saw its role as providing a summary of the bidding companies which was as neutral and professional as possible. Soulivong noted that each of the bidding companies was strong in different areas. The CPI report had gone to the Prime Minister's Office for final selection. CPI President Soulivong told the Ambassador he is not part of the final selection committee.

16. (SBU) Even though the CPI report did not include weak

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points of the bidders, Soulivong made clear the AES bid proposal, in contrast to the bids of the two competing companies, lacked a specific marketing element. Both other proposals apparently included an element discussing marketing to the major logical consumer of the electricity to be generated by the project -- the Electrical Generating Authority of Thailand (EGAT). Both apparently had included summaries of their discussions with EGAT. (Note: PolOff discussed this with an AES official after the meeting and was told that the AES proposal had only included references to Thailand and Vietnam as potential consumers of the electricity from this project without more specific marketing information.)

The Khamson Case

17. (SBU) The Ambassador took advantage of the meeting to raise the case of Mr. Khamson Baccam, an employee in northern Oudomxay Province of the American-owned company Natural Products Inc. (NPI). Khamson was taken into custody by the Oudomxay Provincial Police on January 18. However, his family has not received any information about his status or the charges against him (refs B, C, D). The Ambassador provided Soulivong with a copy of a diplomatic note the Embassy sent to the Foreign Ministry about the case on February 20.

18. (SBU) Although Khamson is a Lao citizen, the Ambassador pointed out his apparent arrest is significantly disrupting NPI's business activities since he was the purchasing agent for soybeans from 300-400 farmers in Oudomxay Province for NPI, which is located in neighboring Bokeo Province. NPI uses the soybeans for a corn-soy blend for the World Food Program. This disruption of business activity is sending a negative message about Laos to other potential American investors. The Ambassador asked CPI President Soulivong to help look into the case. If Khamson has been involved in any wrongdoing, charges should be brought, and the case should proceed in a transparent manner.

The FUF Case

19. (SBU) The Ambassador also raised the case of AmCits Peter and Ruth Dutton who operate a business called Friend of the Upland Farmer (FUF) in northwestern Luang Namtha Province. Although CPI gave FUF a license to invest for 15 years in 1998, FUF has been unable to get its operating licenses renewed by central and provincial Agriculture, Commerce, and Finance Ministries/Departments since 2005 (ref E). The Duttons had been talking to lower-level officials at CPI, and the Ambassador expressed hope CPI President Soulivong might be able also to assist resolving this situation.

Comment

110. (SBU) The Embassy has been working closely with AES to support its bid -- the first major bid by an American investor. Thus we were a bit troubled to hear that AES missed what seems to the Embassy to be logical steps in bidding on a project of this magnitude in Laos. To not have included in the bid proposal a serious marketing element seems like a serious oversight. AES's competitors, both apparently Thai companies, obviously have an edge in dealing with EGAT. However, AES should not have overlooked trying to establish its own relationship with EGAT and including that in its bid proposal. Moreover, AES has major energy investments in Vietnam and could have used its connections with the Vietnamese to help offset any advantages of its Thai competitors.

111. (SBU) Moreover, while AES representatives met with a range of Lao Government officials, including the Ministers of Commerce and Energy in the company of the Ambassador and other working-level officials in the company of EconOff (ref A), we were surprised to learn that AES representatives have apparently failed to meet with the heads of the World Bank

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and ADB here in Vientiane and the World Bank regional head in Bangkok. All of these financial sector officials have interest in major hydropower projects because of their experience with the Nam Theun 2 project and may have been able to help provide AES with suggestions to strengthen its bid -- especially in regards to the newer environmental standards set by the Nam Theun 2 project -- an opportunity now no longer available.

112. (SBU) From what President Soulivong told the Ambassador, it may already be too late to influence the Prime Minister's impending decision -- originally expected by the end of April. AES's only option at this point may be to try to combine forces with its Thai competitor to remain in the game.
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